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Message Text

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INFO OCT-01 EUR-25 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-09 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 SAL-01 OMB-01 NSC-10 SS-14 STR-08 CEA-02 L-03

H-02 PA-03 PRS-01 USIA-12 SSO-00 RSR-01 /155 W
---------- 089453
R 191158 Z MAR 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9788
TREASURY DEPT WASHDC

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FOR ALAN WADE, TREASURY

E. O. 11652: N/ A
TAGS: EFIN, XT, US

THE TEXT OF AN ARTICLE BY PETER JAY, ECONOMICS EDITOR,
APPEARING IN THE TIMES, MARCH 19, 1973, FOLLOWS BELOW.
QUOTE FOREIGN EXCHANGE MARKETS WILL FORMALLY REOPEN
TODAY AFTER THEIR TWO- WEEK CLOSURE, ALTHOUGH THEY HAVE
EFFECTIVELY BEEN DOING VERY NEARLY NORMAL BUSINESS
' UNDER THE COUNTER' DURING THE PERIOD OF OFFICIAL
CLOSURE.
FOR THE FIRST TIME SINCE THE SECOND WORLD WAR THE
MAJORITY OF LEADING CURRENCIES WILL BE FLOATING, NOT
JUST PENDING FURTHER NEGOTIATIONS, AS IN 1971, BUT FOR
THE FORESEEABLE FUTURE.
FINANCE MINISTERS NOW BELIEVE, AFTER LAST FRIDAY' S
MEETING OF 14 COUNTRIES IN PARIS, THAT THEY HAVE GOT THE
MEASURE OF THE SPECULATIVE PRESSURES WHICH HAVE WROUGHT
SUCH SEEMING HAVOC IN INTERNATIONAL CURRENCY MARKETS
TWICE ALREADY THIS YEAR. THE FREEDOM TO LET ANY SUDDEN
PRESSURE FALL ON THE EXCHANGE RATE BETWEEN CURRENCIES
RATHER THAN ON COUNTRIES' RESERVES IS THE MAIN-- BUT NOT
THE ONLY-- ELEMENT IN THE NEW DEFENCES.
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A SECOND WEAPON IS THE INTERVENTION ARRANGEMENTS, BACKED BY EXTENDED SWAP FACILITIES, WHICH WERE AGREED BETWEEN THE UNITED STATES AND THE WEST EUROPEAN COUNTRIES AT FRIDAY' S MEETING.
THE DETAILS OF THESE ARRANGEMENTS ARE DELIBERATELY BEING KEPT MYSTERIOUS IN ORDER TO GIVE POTENTIAL SPECULATORS THE MINIMUM OF FREE INFORMATION ABOUT EXACTLY HOW THE AUTHORITIES MAY MOVE IN ANY FUTURE SITUATION OF HEAVY CURRENCY FLOWS. ON BALANCE A LARGE AND STEADY FLOW BACK INTO DOLLARS IS EXPECTED.
HIGHLY PLACED FINANCIAL SOURCES YESTERDAY SMILED THE INSCRUTABLE SMILE OF A CHESHIRE CAT WITH A VERY SPECIAL SECRET
WHEN THEY WERE ASKED WHETHER THE WORLD' S MONETARY AUTHORITIES MIGHT NOT BE ABOVE SETTING DELIBERATE TRAPS FOR SHORT- TERM CURRENCY OPERATORS.
THIS SUGGESTS THAT THE LEADING CENTRAL BANKS MAY TAKE FULL ADVANTAGE OF THEIR NEW FREEDOM FROM DEFENDING STATED EXCHANGE RATES TO LURE UNWARY SPECULATORS INTO BEAR POSITIONS IN CERTAIN CURRENCIES, AND THEN TO HIT THEM WITH ALL THE FORCE OF THE NEW INTERVENTION AND SWAP ARRANGEMENTS WHICH INEVITABLY MAKE THE CENTRAL BANKS THE DOMINANT OPERATORS IN FOREIGN EXCHANGE MARKETS.
AS AMERICAN SOURCES PUT IT YESTERDAY: LET THE SPECULATORS SPECULATE AGAINST EACH OTHER RATHER THAN AGAINST THE VISIBLE TARGET OF A FIXED OFFICIAL PARITY.
THE AMERICANS, INDEED, ARE OBVIOUSLY DELIGHTED WITH THE WAY THINGS HAVE WORKED OUT IN RECENT WEEKS.
THE UNITED STATES HAS NOW ACHIEVED THE TWO MAJOR OBJECTIVES WHICH PRESIDENT NIXON' S PRINCIPAL FINANCIAL ADVISERS SET WHEN THEY FIRST TOOK OFFICE OVER FOUR YEARS AGO.
THE FIRST WAS TO CORRECT THE FUNDAMENTAL DISEQUILIBRIUM IN THE EXTERNAL PAYMENTS BY SECURING A BIG CHANGE IN THE DOLLAR' S EFFECTIVE EXCHANGE VALUE IN TERMS OF OTHER CURRENCIES. THE SECOND WAS TO MOVE THE WORLD TOWARDS A SYSTEM OF FLEXIBLE EXCHANGE RATES.
THE DIFFICULTY NOW IS TO SEE WHY THE AMERICANS SHOULD STILL BE SO KEEN ABOUT THE PERMANENT REFORM OF THE WORLD MONETARY SYSTEM, WHICH IS BEING NEGOTIATED IN THE IMF' S COMMITTEE OF TWENTY. THE ANSWER SEEMS PARTLY TO LIE IN THEIR DESIRE NOT TO APPEAR TO BE FRUSTRATING THE STRONG WISHES OF SO MANYOTHER COUNTRIES.
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BUT THE OTHER MEMBERS OF THE COMMITTEE OF TWENTY MAY
WELL FIND THE AMERICAN REPRESENTATIVE RE- INTERPRETING THE
KEY SPEECH MADE AT LAST SEPTEMBER' S ANNUAL MEETING OF THE
IMF BY MR. GEORGE SHULTZ, THE SECRETARY OF THE TREASURY.
AMERICAN SOURCES YESTERDAY READ THE SPEECH AS
BY NO MEANS COMMITTING THE UNITED STATES TO A RETURN TO A

SYSTEM OF FIXED- BUT- ADJUSTABLE PARITIES. EVEN IN THE LONG
PERSPECTIVE OF PERMANENT REFORMS.

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INR-09 NSAE-00 RSC-01 XMB-07 OPIC-12 CIEP-02 LAB-06

SIL-01 SAL-01 OMB-01 NSC-10 SS-14 STR-08 CEA-02 L-03

H-02 PA-03 PRS-01 USIA-12 SSO-00 RSR-01 /155 W
---------- 089466
R 191158 Z MAR 73
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 9789
TREASURY DEPT WASHDC

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AT LEAST AS POWERFUL AN INFLUENCE FOR TIMELY ADJUSTMENT
OF EXCHANGE RATES AS COULD BE ANY NEW RULES OR CRITERIA
WRITTEN INTO THE ARTICLES OF THE IMF. THIS ONLY LEAVES
SECONDARY ISSUES, SUCH AS THE RESIDUAL ROLE OF GOLD AND
THE CONSOLIDATION OF ACCUMULATED RESERVE CURRENCY
BALANCES TO INTEREST THE UNITED STATES IN THE REMAINING
STAGES OF THE REFORM NEGOTIATIONS.
THE MAIN FOCUS OF FUTURE EXCHANGE MARKET TENSION IS
EXPECTED TO ARISE IN THOSE FEW CASES WHERE FULL
EXCHANGE RATE FREEDOM HAS NOT BEEN ESTABLISHED. THIS IS
CHIEFLY BETWEEN THE CURRENCIES OF THOSE MEMBERS OF THE
EEC WHICH ARE FLOATING JOINTLY.
BRITAIN (WITH IRELAND) AND WEST GERMANY ARE SAFELY
INSULATED FROM THIS DANGER, SINCE FOR THE TIME BEING
THEY WILL CONTINUE TO FLOAT INDEPENDENTLY AGAINST THE
OTHER COMMUNITY CURRENCIES AS WELL AS AGAINST THE DOLLAR.
BUT THE FIXED RELATIONSHIP BETWEEN THE STRONG GERMAN MARK

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AND THE HABITUALLY WEAKER FRENCH FRANC IS SEEN AS THE
MOST BRITTLE LINK IN THE NEW CHAIN.
IF IT COMES UNDER STRAIN OVER THE NEXT FEW MONTHS,
THE FIRST LINE OF DEFENCE WILL BE THE COMMUNITY' S MUTUAL
SUPPORT ARRANGEMENTS. BUT THESE ARE STILL MORE TOKEN
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THAN SUBSTANTIAL.
SO LONG AS THE POUND FLOATS INDEPENDENTLY, IT WILL
HAVE NO MORE REASON FOR CONCERN THAN THE DOLLAR, AS THEY
BOTH SHRUG OFF THEIR ONEROUS RESERVE ROLES. UNQUOTE
ANNENBERG

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*** Current Handling Restrictions *** n/a
*** Current Classification *** UNCLASSIFIED

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: APPEARING IN THE TIMES, ECONOMICS EDITOR, FOLLOWS BELOW, MARCH 19, THE TEXT OF AN ARTICLE BY PETER JAY
Control Number: n/a
Copy: SINGLE
Draft Date: 19 MAR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LONDON03221
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730340/aaaaikok.tel
Line Count: 190
Locator: TEXT ON-LINE
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: kellerpr
Review Comment: n/a
Review Content Flags:
Review Date: 09 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09-Aug-2001 by maustmc>; APPROVED <15-Aug-2001 by kellerpr>
Review Markings:

Declassified/Released
US Department of State
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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980106
Subject: N/A
TAGS: EFIN, US, XT
To: DEPT WASHDC
EB
SECSTATE WASHDC
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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